



## **OXFORD ANALYTICA**

**POLAND**

**MONETARY TRANSPARENCY**

**Country Report 2005**

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5 Alfred Street  
Oxford OX1 4EH

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# POLAND



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2005	2004	2003	2002
Clarity of roles	●●●●	●●●●	●●●●	●●●●
Open decision process	●●●●	●●●●	●●●●	●●●●
Availability of information	●●●●	●●●●	●●●●	●●●●
Central bank accountability	●●●●	●●●●	●●●●	●●●●
<b>Score</b>	<b>4.50</b>	<b>4.50</b>	<b>4.25</b>	<b>4.00</b>

## OUTLOOK & COMMENTARY

The National Bank of Poland (NBP) has further consolidated its reputation as an institution committed to the highest standards of transparency. The new system of published inflation projections, initially criticised by the markets, has increasingly established itself as an effective mechanism for communicating monetary policy goals and decisions.

Following this year's parliamentary pressures, there will be attempts to influence the NBP. The new governing party has indicated its preference for replacing the NBP's Monetary Policy Council with an executive bank board, although this is not presented as a way of undermining the central bank's independence. However, the government's minority status may make it difficult to realise these goals.

The NBP will have an important role to play in contributing to the debate on Polish euro-zone accession at a time when the government's commitment to the goal appears to have weakened, and its ability to push through fiscal consolidation may come to be tested by its parliamentary position.

## EXECUTIVE SUMMARY

### 4.50 Compliance in progress

A number of legislative amendments made in connection with Poland's EU accession has made Poland practically fully compliant with the best practices of monetary transparency. The National Bank of Poland (NBP) is widely respected as an independent institution with high standards of professionalism.

The NBP has been criticised for a lack of continuity in policy making due to the constitutional requirement to appoint all 12 external members of the decision-making Monetary Policy Council (MPC) simultaneously and the inevitable learning process this entails. In practice, however, the central bank's decision-making process is highly, indeed increasingly, rules-based and the lack of institutional continuity does not appear to have had a significant impact on monetary policy, except perhaps in terms of the need for a new MPC to act more assertively than it otherwise might to establish its reputation. Continuity to date has further benefited from the presence of a strong NBP President Leszek Balcerowicz.

Poland last year began to publish inflation projections in its quarterly *Inflation Report*, a logical and arguably overdue complement to the long-standing policy of inflation targeting. Although these were initially criticised by the markets -- partly because their role in decision-making was not entirely clear -- the new system seems to have established itself as a transparent and effective instrument to communicate the central bank's views. The process has further benefited from revisions this year to the central bank's macroeconomic modelling framework, which appears to have strengthened the link between the projections and the MPC's decisions.

The range and quality of the central bank's statistical and analytical publications is impressive. Some concerns have been expressed over the quality of the balance of payments statistics as a result of a methodological change, but the central bank is currently revising the system. Through its publications, the NBP continues to play an important role in shaping the economic policy debate in the country. The importance of this contribution may grow in the coming years as the newly elected minority government's commitment to fiscal consolidation is tested. Polish euro accession by the beginning of next decade will require strong fiscal discipline and the central bank, through its work with the government, can play an important role in fostering this, whether it is done in the name of euro adoption or of improving the general economic conditions facing the country.

In addition to criticising President Balcerowicz, members of the governing Law and Justice Party (*Prawo i Sprawiedliwość*) have spoken in favour of eliminating the MPC in favour of an executive board. In practice, however, this would require a constitutional change that the minority government is unlikely to be able to bring about. Even if some reforms are undertaken, it is unlikely that the central bank's independence will be compromised, given the increasingly clear and formal framework in which monetary policy is conducted.

Poland's overall score remains unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES OF CENTRAL BANKS

●●●●● Full compliance

### The objectives and institutional framework of monetary policy

The Polish Constitution, together with the 1997 Act on the National Bank of Poland (NBP), sets out the responsibilities, objectives, and institutional structure of the central bank. Under the Constitution, the NBP enjoys “the exclusive right ... to formulate and implement monetary policy.”<sup>1</sup> The Act was updated in December 2003, effective on 1 January 2004, to ensure full compliance with EU standards, although some residual issues remain to be solved.<sup>2</sup>

Monetary policy is set by the Monetary Policy Council (MPC), which is headed by the NBP president. The MPC is assisted by the NBP Management Board, which is composed of the central bank president, two vice-presidents, and six others. Board members are appointed by the president of the Republic on the NBP president’s recommendation. The NBP president can be appointed for up to two consecutive six-year terms. The appointment is made by the *Sejm* (the lower house of the Polish parliament) following a recommendation by the president of the Republic. The NBP president and members of the MPC cannot be removed from office, except under strict legal criteria.<sup>3</sup>

#### Central bank objectives and responsibilities

The NBP Act singles out price stability as the primary objective of monetary policy. The central bank “shall at the same time act in support of government economic policies, insofar as this does not constrain pursuit of the basic objective of the NBP.”<sup>4</sup>

The central bank has the exclusive right to issue currency and to determine monetary policy. The NBP is further legally responsible for organising monetary settlements, managing the foreign exchange reserves, conducting foreign exchange operations, providing banking services to the central government, regulating the liquidity of the banking system and establishing the necessary conditions for its development, compiling data on the balance of payments, including the foreign assets and liabilities of the central government, and managing foreign exchange reserves.<sup>5</sup> Other tasks can be introduced under law.

The NBP is responsible for the implementation of foreign exchange policy formulated in agreement with the Council of Ministers.<sup>6</sup> While there have been some past disagreements on the exact division of labour between the government and the central bank, the NBP has prevailed. The problem was institutionally settled with the creation of a joint NBP-Ministry of Finance Committee for setting the strategy for joining the ERM2.<sup>7</sup> The Polish zloty has been floating freely since 2000 and the NBP has no legal responsibility to intervene in support of it. However, it may do this if it thinks that exchange rate developments may jeopardise its main policy objective.<sup>8</sup>

#### Operational autonomy

The NBP conforms to ECB regulations on central bank independence.<sup>9</sup> The only area where the responsibility for monetary policy is shared with another body is in the requirement to set the exchange rate regime jointly with the Council of Ministers. However, the day-to-day management of the exchange rate regime is the sole responsibility of the central bank. Since 2000, Poland has pursued a floating exchange rate regime with no restrictions. However, the

NBP reserves the right to intervene in the event that exchange rate developments might jeopardise the inflation target.<sup>10</sup>

The simultaneous appointment of all nine external MPC members, with the *Sejm*, the Senate, and the president of the Republic each appointing three – creates the theoretical possibility of political influence. The appointment process, especially with respect to the members appointed by the two chambers of the parliament, is inevitably politicised to a degree. In particular, the last MPC was known for its roughly equal division between members commonly known as “hawks” and “doves.” The new MPC appears more balanced than its predecessor and the divisions less important because of the conclusion of the disinflationary process under the previous Council.<sup>11</sup>

In spite of the appointment process, however, the conduct of monetary policy has been highly consistent. The NBP Act sets basic professional standards for Council members requiring all of them to be “specialists in the field of finance.” They are, in addition, required to suspend their membership in any political party or union during their tenure.<sup>12</sup> More importantly, however, members, almost regardless of their background, seem to be mindful of protecting the NBP’s reputation through a clear commitment to the inflation-targeting regime. While some individual policy decisions have generated a certain amount of controversy, when viewed over the longer term the central bank’s policy has matched the expectations of analysts and observers.<sup>13</sup>

In recent years, the NBP has established a non-confrontational and even collaborative relationship with the Ministry of Finance. This has been formalised in part by the establishment of interdepartmental working groups. The Public Debt Management Committee, which meets monthly, includes representatives from both institutions. Similarly, the two organisations collaborate in the context of the Inter-Departmental Working Group on Poland’s Integration with the EMU. The group was set up in 2002 and monthly meetings have been held since 2004 to discuss the general macroeconomic situation and prospects for euro adoption; there are additional contacts at lower levels.<sup>14</sup>

## **Institutional relationship between monetary and fiscal operations**

### **Lending to government**

NBP lending to the government for the purposes of covering any part of the budget deficit is constitutionally forbidden.<sup>15</sup> The NBP can support the government’s economic policies through its monetary policy-making activities without, however, jeopardising its basic objective. The NBP is legally entitled to buy and sell treasury securities under open market operations, although it invariably uses its own securities.<sup>16</sup> The balance of government debt held by the NBP is disclosed as part of its balance sheet but information on the maturity of government securities is not included with these data.

### **Central bank involvement in the rest of the economy**

The NBP is required under the NBP Act to keep the accounts of: banks, the state budget, the Bank Guarantee Fund, the National Saving and Credit Cooperative (Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa SKOK), and other entities approved by the central bank president.<sup>17</sup>

The NBP is responsible for the operations of the banking system through its involvement in the Commission for Banking Supervision (*Komisja Nadzoru Bankowego*), which is headed by the NBP president. It supervises the activities of the financial sector and is authorised to impose penalties on entities found to contravene the existing legislation.<sup>18</sup> The decisions taken by the CBS are implemented by the General Inspectorate of Banking Supervision (*Generalny Inspektorat Nadzoru Bankowego*), which is an organisationally independent branch of the NBP headed by a special general inspector. The Inspectorate is responsible for ensuring the safety and soundness of the banking system. Among other things, it licenses banks, monitors their ownership structure and the adequacy of their

management, monitors their financial stability, prepares prudential regulation, conducts on-site inspections, etc.<sup>19</sup> The NBP organises the inter-bank settlement system, conducts inter-bank settlements and is actively involved in the inter-bank money market.

Effective supervision of the financial sector as a whole is ensured through memoranda of understanding with the Securities and Exchange Commission and the Insurance and Pension Funds Supervisory Commission, as well as through the representation of each agency on the boards of their peers. Credit unions have their own supervisory body and have historically been treated separately from banks. For example they were not subject to the Banking Act or counted in the money supply. At the request of the European Central Bank, this has now changed at a time when the sector is experiencing strong growth.<sup>20</sup>

The NBP was legally obliged to sell all of its holdings in the rest of the economy by the end of 2002 and has fully complied with this requirement.<sup>21</sup> The only exceptions are shares in international financial organisations and entities providing services to the financial sector and the Treasury, such as clearing houses.<sup>22</sup>

The NBP Act requires the central bank to produce an opinion on the government's budget bill. This typically takes the form of a short 5-page document, which is submitted to the parliament in September-October. The NBP typically comments on the budget balance and fiscal sustainability, as well as the government's GDP growth assumptions.<sup>23</sup>

### **Central bank profit allocation**

Under the NBP Act, 5% of the net profits of the central bank must be transferred to the NBP's reserve capital, which is used to absorb net losses. The NBP Act empowers the Management Board to set up a staff bonus funds and the regulations regarding transfers from net profits to the fund.<sup>24</sup> Fourteen days following the approval of the annual accounts of the NBP by the Council of Ministers, 95% of the central bank's net profits is transferred to the state budget.<sup>25</sup> Following the revisions to the NBP Act, an external auditor will assess the operating costs.<sup>26</sup>

### **Agency roles performed by the central bank on behalf of the government**

According to the NBP Act, the central bank can act as a financial agent to the government for servicing the country's foreign debt and for concluding loan agreements under specific terms in each case. The NBP assumes none of the liabilities of the Treasury in this case. The procedures are specified on a case-by-case basis by agreement between the NBP and the Ministry of Finance.<sup>27</sup>

The NBP keeps the accounts of the state budget.<sup>28</sup>

## 2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS



Compliance in progress

### The framework, instruments, and targets of monetary policy

#### Framework and monetary targets

The NBP has pursued an inflation-targeting regime since September 1998.<sup>29</sup> Having effectively completed the disinflationary process in the 1990s, NBP this year adopted a new regime of continuous targeting in the run-up to Polish euro-zone accession. The new Monetary Policy Council in February 2004 confirmed the 2.5% target, with a tolerance band of  $\pm 1\%$ , set by its predecessor. The target was set with the Maastricht criteria in mind and is designed to ensure that Poland will meet this particular membership criterion. No penalties are defined for deviations from targets.<sup>30</sup> In order to further enhance the credibility of the regime, NBP officials have repeatedly emphasised that the target is a point, rather than a band, target with the  $\pm 1\%$  room for variation merely representing a safety margin.<sup>31</sup>

The NBP is committed to exchange rate flexibility and revisions to the floating exchange rate regime are now viewed as unlikely before ERM2 membership. While interventions have been rare of late, the central bank does have the right to operate a dirty float if it so chooses.<sup>32</sup> In practice, however, the central bank has repeatedly demonstrated its commitment to a free float, even against the backdrop of strong zloty appreciation last year.<sup>33</sup>

The NBP has taken a clear stance in favour of Polish euro-zone membership as soon as the Maastricht criteria are met.<sup>34</sup> It has further signalled that it wishes to limit Polish ERM2 membership to the minimum two years and does not favour joining the mechanism without a clear plan of action, which envisages euro-adoption by the end of the minimum period. While 2009-10 is an unofficial target for Euro-zone entry, markets increasingly expect entry to be delayed into the beginning years of the next decade. The government's programme of fiscal consolidation envisages a public sector deficit of less than 3% of GDP by 2007. While the programme is widely viewed as credible, the government's track record in delivering on comparable plans has been mixed.<sup>35</sup>

#### Monetary instruments

The NBP applies a series of monetary policy instruments, which are detailed under Title 6 of the NBP Act. Interest rates -- the reference, lombard, and deposit rates -- are in practice the main instrument used in the implementation of the inflation targeting regime. Due to volatility in market rates caused by variations in the term deposits of the Ministry of Finance at the NBP, a decision was taken in 2004 to deposit some of the excess liquidity in the banking system.<sup>36</sup>

Open-market operations are the main means of ensuring the compatibility of short-term interest rates with the inflation target. The basic open-market operations are conducted using 7-day NBP money market bills, which are auctioned once a week. Their nominal yield is determined by the NBP's reference rate. Fine-tuning operations can involve NBP bill issues and repo operations and are undertaken in the event of unexpected short-term changes in liquidity. Structural operations are aimed at changing longer-term liquidity levels and, in addition to operations in NBP bills, can involve market purchases of securities and issues of long-term bonds. Standing facilities include overnight (lombard) credit and end-of-day deposits. In addition, intraday credit, which is collateralised by Treasury

securities, is an important element of the clearing system.<sup>37</sup> The compulsory reserve requirement has, since October 2003, stood at 3.5% for all types of deposits. Since May 2004, interest has been paid on required reserves.<sup>38</sup>

## **The monetary policy-making body**

### **Monetary board**

The Monetary Policy Council of the NBP is responsible for the conduct of monetary policy. In addition to the NBP president, the Council consists of nine members appointed simultaneously for a non-renewable six-year term in equal numbers by the president of the Republic, the *Sejm*, and the Senate. Even though the Constitution specifies a single six-year term, the NBP Act stipulates that when a MPC member is replaced with less than three years left of his term, his replacement can subsequently be appointed for a full six-year term.<sup>39</sup>

Whereas the president of the Republic has been viewed as largely impartial in his appointments, the parliament has been swayed by political pressures. The members appointed by the *Sejm* and the Senate are chosen by the parliamentary majority in either chamber with no formal requirement to heed the views of the opposition. Although the NBP Act stipulates that MPC members should be financial specialists, the standard has not always been observed in practice and not all appointments have met with widespread approval. However, effective control is exercised by the markets and the media, which significantly limits the members' room for manoeuvre. The actions of the MPC have been remarkably consistent in recent years regardless of its composition. MPC debates have been characterised by a high level of professionalism and the high level of external scrutiny, made possible by the publication of the voting records and interviews granted by members to the press, has significantly boosted the accountability of individual members.<sup>40</sup>

The MPC draws up the annual monetary policy guidelines, sets NBP base interest rates, sets the reserve ratio, and determines the principles applicable to open market operations.<sup>41</sup>

Details of current MPC members are publicly available on the NBP website, and their voting record is published six weeks after its meetings. The board votes by simple majority. In the case of equal votes, the vote of the NBP's president is decisive. MPC meetings are now ordinarily held once a month.<sup>42</sup>

Poland is somewhat exceptional among the countries of the region in appointing all the external members of the Monetary Policy Council at the same time. In its comments to the proposed changes to the Act on the National Bank of Hungary, the European Central Bank in November 2004 found that: "it would enhance the long-term independence of the decision-making body if vacancies in the Monetary Council are not filled 'en bloc,' but instead there is a system in place whereby members are appointed and their term of office expires at different times, allowing sufficient interim periods between subsequent appointments. This would ensure that membership of the decision-making body is not determined by political cycles."<sup>43</sup> In this context, Poland must be deemed to fall short of the ECB recommendation.

The NBP Management Board's primary responsibilities involve implementing the resolutions of the Council, adopting the NBP plan of operations and financial plan, and performing other duties with respect to exchange rate policies.

### **Advance meeting schedule**

The MPC meets monthly, in accordance with the NBP Act. In addition, a minimum of three MPC members can jointly request an extraordinary meeting.<sup>44</sup> The NBP publishes the date of its next meeting in the accompanying



press release on its website.<sup>45</sup> However, a preliminary meeting schedule is published for a year at a time on the NBP website. It indicated the approximate date of the monthly meeting, typically within a bracket of two days.<sup>46</sup>

## Public statements on monetary policy

### Periodic publications

The NBP publishes a wide range of materials, all of which are available on the central bank's website. Annual publications include the *Annual Report* (which covers general economic conditions, developments in the financial sector, the performance of the central bank, and the Polish balance of payments), the *Report on Monetary Policy*, and the *Report on NBP Operations*. The main quarterly publications are the *Inflation Report* and the *Balance of Payments* accounts. In addition, the NBP produces three journals at least monthly, as well as a variety of other publications. The NBP website has a section of daily information which covers exchange rates, interest rates, and other basic financial sector data. The website also reproduces other articles published about the central bank in the press.

In September 2004, the NBP began to publish its inflation projections for the first time, being at the time the last central bank pursuing inflation targeting to do so. The forecasts are produced by the NBP's technical staff. The forecasting model was revised this year to allow GDP to be considered an endogenous variable.<sup>47</sup> New forecasts will be released on a quarterly basis.<sup>48</sup>

The NBP is very open about its macroeconomic modelling framework and the models used by bank analysts are described in the central bank's research publications. Two of the central bank departments -- the Bureau of Macroeconomic Research (BMR) and the Department of Macroeconomic and Structural Analysis -- are engaged in modelling and analytical research. The two main BMR models form the basis for published projections.<sup>49</sup> The NBP's staff, often in collaboration with experts from other institutions including international organisations, is quite active in the analytical debate in the country and often undertake work in areas outside of their primary responsibilities. One recent case was an attempt to model the impact of flat taxes on the Polish economy.

### Public hearings

Press conferences are held after all MPC meetings. The press releases circulated after MPC meetings include an explanation of its monetary policy decisions. There have been demands to further increase the timeliness of publishing interest rate decisions to make the process as instantaneous as possible, so as to increase market efficiency on the day of MPC meetings. Similarly, somewhat problematically, the publication of the data bearing on MPC decisions is not yet fully regularised. In particular, data on inflation expectations, which the central bank quantified on the basis of polling data by Ipsos, are often published for the first time after Council meetings.<sup>50</sup> The Council's voting record by name is released six weeks after each meeting. In contrast, minutes of the Council meetings are not made public and there are no immediate plans to do so. MPC members are free to express their views publicly, in spite of the short-term volatility this has in some cases caused on the financial markets. Under the new MPC, more efforts appear to have been made to better coordinate MPC interaction with the media.<sup>51</sup>

The NBP regularly seeks advice from international financial organisations and domestic experts in connection with various aspects of its operations. Analysts are frequently consulted about their inflation expectations. However, there are no formal consultations or attempts to involve all affected parties in discussions on policy changes.

The NBP president is required to appear at least once a year before the *Sejm* with additional meetings possible as needed. About one to two appearances a year before the Economics Committee seem to be the norm. Also, the

Council of Ministers can invite the NBP president to its meetings as needed. However, there are no formal public hearings on the US model.

The central bank is organising meetings with independent market analysts in order to smoothen out the transition to the new regime of inflation projection published on a quarterly basis.<sup>52</sup>

### **Regulations on data reporting by financial institutions to the central bank**

In accordance with the NBP Act, the central bank collates information from banks and other institutions on a monthly basis. These data are used to compile information on monetary policy, the periodic evaluation of the monetary policy stance, the compilation of the balance of payments and international investment position, and the evaluation of risk inherent in the banking sector. These data are publicly disclosed in regular briefs and reports.<sup>53</sup>

Banking supervision is conducted by the Commission for Banking Supervision, which is chaired by the NBP president and includes representatives of the Ministry of Finance, the president of the Republic, the Bank Guarantee Fund, the Securities and Exchange Commission, and the General Inspectorate of Banking Supervision (GIBS). Its decisions are executed by the GIBS, which is a separate structural unit within the NBP. The Commission is charged with maintaining prudential standards and is authorised to conduct on-site investigations.<sup>54</sup> Polish standards for banking supervision conform to international requirements.

### 3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●●● Full Compliance

#### Release of central bank data

As a subscriber to the IMF Special Data Dissemination Standard (SDDS), Poland meets its specifications for the coverage, periodicity and timeliness of monetary data. The NBP publishes its analytical accounts on a monthly basis, within one week of the end of the reference month. The information is compiled in the *Information Bulletin* which is fully reproduced on the website. The data covers the balance sheet of the NBP and, among other things, includes details of reserve money, credit to the government and financial sectors, and net foreign assets. The data is presented in a time-series format, usually going back to 1999.

A methodological section describes the provenance and methods of compiling the data. Much of this data is also available separately.<sup>55</sup> The only shortcomings in Polish monetary statistics relate to a relative lack of data on inter-bank positions and difficulties in identifying gross and net positions of the government. The NBP is working with the European Central Bank to ensure full convergence with best international standards.<sup>56</sup> Some criticism has been voiced by observers about the accuracy and timeliness of Polish balance of payments data. In response to Eurostat requirements, the NBP two years ago switched from payments data based on reports by banks to transactions data based on trade and customs reports. This transition has resulted in some volatility and delays, which have been further complicated by methodological changes since the transition. The NBP's Department of Statistics is currently working on improving the accuracy and timeliness of the finalised data. Some analysts have also expressed concern over apparent confusion regarding the way EU funds are accounted for in the balance of payments statistics.

The NBP Act establishes a statutory responsibility for the central bank to “draw up an account of the national balance of payments for reporting purposes, along with balances of the foreign assets and liabilities of the central government.” In addition, the NBP president is required to issue quarterly reports covering these areas. Requisite reporting requirements are imposed on banks and state bodies.<sup>57</sup> The NBP is deemed to have adequate material and human resources to properly collect, process, and disseminate the data.<sup>58</sup>

The central bank posts an advance release calendar on its website. The calendar for analytical accounts of the banking sector and of the central bank, interest rates, the stock market, the balance of payments, international reserves and foreign currency liquidity, merchandise trade, international investment position, external debt, and exchange rates is also available through the IMF website.<sup>59</sup>

#### The central bank balance sheet

The NBP publishes a consolidated balance sheet including a breakdown of the NBP's assets and liabilities in the monthly *Information Bulletin*. This publication also details the NBP's open market activities and its reserve money stock.

An annual balance sheet, as well as an income statement, is published in the NBP *Annual Report*. Movements in assets and liabilities are described in detail, and details on changes in their structure are provided. Similar assessments are provided for the income and loss account. Movements in valuation allowances against financial assets are similarly described. The NBP Act specifies that the accounting principles of the NBP must conform to the

International Accounting Standards. Since 1999, the balance sheet has been prepared in agreement with accounting standards of the ECB. The *Annual Report* sets out these standards in detail.

## **Lender of last resort**

Under its responsibility for ensuring the stability of the financial system, the NBP is allowed to act as lender of last resort. The central bank discloses the aggregate amounts it provides as emergency financial support in the NBP *Annual Report*. All last-resort lending is fully collateralised.<sup>60</sup> The situation in the Polish banking system has recently been marked by excess liquidity and this looks unlikely to change in the near term. However, the central bank is ready to use any monetary policy instruments to ensure adequate liquidity, should the situation change, even temporarily.<sup>61</sup>

## **Public information services**

The NBP has some of the most extensive and exemplary public information services in the region. In addition to its regular reports, all press releases on the NBP's activities and bulletins are disseminated through the website. The website further reproduces a list of frequently asked questions and provides contact information for enquiries by the public.<sup>62</sup> The research library is open to the public and the NBP organises a variety of educational activities, including a special website for economic education.<sup>63</sup>

Press conferences are held after every Monetary Policy Council meeting. In addition, MPC members are frequently interviewed by the press with no formal restrictions on their freedom to express their views. However, observers occasionally complain of difficulty in differentiating between the position of the MPC and the views of its individual members. Following the appointment of the new MPC, the central bank appears to have made some efforts to better coordinate these public statements.<sup>64</sup>

#### 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK



Compliance in progress

##### Accountability before a designated public authority

The central bank is required under the NBP Act to submit the *Annual Report of Monetary Policy* and its financial results to the *Sejm*. The NBP president is required to present quarterly data on the balance of payments and annual data on the assets and liabilities of the state to the *Sejm* and the Council of Ministers.<sup>65</sup> However, there are few legal mechanisms for criticising the central bank's reports or requiring changes in them.

The NBP president and other representatives stipulated under law are required to supply information about monetary policy and the activities of the NBP to the *Sejm*, the Senate, and their committees.<sup>66</sup>

##### Financial statement

The NBP publishes a financial statement containing operational expenses and revenues in its *Annual Report*.

##### Audited financial statement

Since the revision of the NBP became effective last year, the central bank's activities are subject to independent audits by an auditor appointed by the MPC. The audited statement is presented to the Council of Ministers for approval no later than 30 April of the year following the financial year.<sup>67</sup>

##### External and internal audit

Since 2004, the NBP has been required to appoint an independent external auditor to examine its account. The independent external auditor last year was Ernst & Young.<sup>68</sup>

The NBP's 38-member Internal Audit Department (IAD) is responsible for internal audits of the NBP and its departments. The department prepares an annual audit plan focusing on areas of the greatest perceived risk. Less urgent topics are included in a three-year audit plan. The IAD is accountable to the NBP president. It reports on a quarterly basis to the Management Board on the most important findings, as well as on general progress in implementing its recommendations.<sup>69</sup>

All recommendations by auditors are announced along with a timetable for their implementation, which is set up jointly with the auditee. All projects are included in a database and there is a compulsory reporting requirement at the deadline. Auditors are required to monitor the realisation of earlier recommendations during their work. Formal follow-up audits can be ordered in areas of importance. Internal audits cover all areas of the NBP's activities and are submitted to the Board of Managers.<sup>70</sup>

The Supreme Chamber of Control (*Najwyższa Izba Kontroli*, NIK) has a constitutionally defined right to audit the National Bank.<sup>71</sup> The two primary areas of investigation are the administration of the state budget accounts and the performance of key NBP tasks such as monetary policy, management of reserves, and general finances. Recent

examples of *ad hoc* audits have included banking supervision and the management of the foreign exchange reserves. NIK can audit the NBP under all of its operational criteria.<sup>72</sup>

## Conduct of officials

The NBP fails to disclose internal governance procedures that prevent conflicts of interests for all NBP staff including members of the MPC.<sup>73</sup> However, the Civic Code stipulates standards of conduct for public officials, including employees of the central bank. The NBP Act also prohibits the disclosure of any secret information by staff during and after their employment at the central bank.<sup>74</sup>

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Poland between 28 September and 4 October 2005:

### National Bank of Poland

#### 29 September 2005

Zbigniew Polański	Advisor to the President	Macroeconomic and Structural Analysis Department
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#### 30 September 2005

Adam B. Czyżewski	Director	Macroeconomic and Structural Analysis Department
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### Ministry of Finance

#### 30 September 2005

Małgorzata Litwin-Staszewska	Analyst	Department of Financial Policy, Analysis, and Statistics
Paweł Kolski	Economist	Department of Financial Policy, Analysis, and Statistics

#### 4 October 2005

Paweł Kowalewski	Director	Department of Public Debt
Bogdan Klimaszewski	Head, Division of Debt Strategy And Projections	Department of Public Debt
Maurycy Michalski	Head, Division of Debt Records and Methodology and Cooperation with International Institutions	Department of Public Debt

## ADDITIONAL INTERVIEWS

#### 28 September 2005

Leszek Kąsek	Economist	World Bank
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#### 30 September 2005

Robert Sierhej	Economist	International Monetary Fund
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#### 3 October 2005

Bohdan Wyżnikiewicz	Vice President	Gdańsk Institute for Market Economies
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**4 October 2005**

Andrzej Kościan	Department of National Accounts and Finances	Central Statistical Office ( <i>Główny Urząd Statystyczny</i> )
Magdalena Raszkowska	Department of National Accounts And Finances	Central Statistical Office



## NOTES

<sup>1</sup> *Ustawa z dnia 29 sierpnia 1997 r. o Narodowym Banku Polskim (tekst jednolity ogłoszony w Dz.U. z 2005. Nr. 1, poz. 2).* The Act on the National Bank of Poland (NBP Act) of August 1997 is published at the central bank website: [www.nbp.pl](http://www.nbp.pl) The consolidated version with all the amendments up to the end of 2004 can be found at:

[www.nbp.pl/aktyprawne/dwn/ustawa\\_nbp.pdf](http://www.nbp.pl/aktyprawne/dwn/ustawa_nbp.pdf) Constitution of the Republic of Poland, Article 227(1).

<sup>2</sup> *Ustawa z dnia 18 grudnia 2003 r. o zmianie ustawy o Narodowym Banku Polskim oraz o zmianie innych ustaw (Dz.U. Nr. 228, poz. 2260); Convergence Report 2004*, Frankfurt am Main: European Central Bank, 2004, pp. 230-232.

<sup>3</sup> The NBP Act specifies in Article 9 and 12 the only circumstances under which the president and MPC members can be removed from office. They include: resignation, prolonged illness that does not allow for the carrying out of their duties, or a court sentence for a criminal offence.

<sup>4</sup> NBP Act, Article 3.

<sup>5</sup> NBP Act, Article 3(2).

<sup>6</sup> NBP Act, Article 24(1); Zbigniew Polański, "Poland and the European Union: The Monetary Policy Dimension -- Monetary Policy before Poland's Accession to the European Union," *Bank i Kredyt*, May 2004, p. 8.

<sup>7</sup> Interviews in Poland, 29 September-4 October 2005.

<sup>8</sup> Interviews in Poland, 29 September-4 October 2005.

<sup>9</sup> Interviews in Poland, 29 September-4 October 2005.

<sup>10</sup> NBP Act, Article 24(1), (2); [www.nbp.pl](http://www.nbp.pl) : O NBP > Polityka pieniężna: Zasady polityki kursowej.

<sup>11</sup> Interviews in Poland, 29 September-4 October 2005.

<sup>12</sup> NBP Act, Article 13(1)2, 14.

<sup>13</sup> Interviews in Poland, 29 September-4 October 2005.

<sup>14</sup> Interviews in Poland, 29 September-4 October 2005.

<sup>15</sup> Constitution of the Republic of Poland, Article 220(2).

<sup>16</sup> NBP Act, Articles 48, 49.

<sup>17</sup> NBP Act, Article 51.

<sup>18</sup> NBP Act, Articles 30(2), 44-46; [www.nbp.pl](http://www.nbp.pl) > Nadzór bankowy > Komisja Nadzoru Bankowego.

<sup>19</sup> [www.nbp.pl](http://www.nbp.pl) > Nadzór bankowy > Generalny Inspektorat Nadzoru Bankowego.

<sup>20</sup> [www.kpwig.gov.pl](http://www.kpwig.gov.pl); [www.knuife.gov.pl](http://www.knuife.gov.pl); Interviews in Poland, 29 September-4 October 2005.

<sup>21</sup> The NBP and the government agreed on such a timetable in a process of phasing in the NBP Act.

<sup>22</sup> NBP Act, Article 5.

<sup>23</sup> NBP Act, Article 23(2);

<sup>24</sup> NBP Act, Articles 62(2).

<sup>25</sup> NBP Act, Article 69(4).

<sup>26</sup> Interviews in Poland, 29 September-4 October 2005.

<sup>27</sup> NBP Act, Article 52

<sup>28</sup> NBP Act, Article 51(2).

<sup>29</sup> *OECD Economic Surveys: Poland*, Volume 2004/8, Paris: Organisation for Economic Development, June 2004, pp. 62-64.

<sup>30</sup> [www.nbp.pl](http://www.nbp.pl): Polityka pieniężna; *Założenia polityki pieniężnej na rok 2005*, Warsaw: National Bank of Poland, September 2004, p. 3.

<sup>31</sup> "Wciąż daleko od OK," *MAKROskop: Polska Gospodarka i Rynki Finansowe*, Warsaw: Bank Zachodni WBK, July 2004, p. 6.

<sup>32</sup> Interviews in Poland, 29 September-4 October 2005.

<sup>33</sup> "Central-Eastern Europe: Currency Gains Will Persist," *Oxford Analytica Daily Brief*, 25 January 2005.

<sup>34</sup> *A Report on the Costs and Benefits of Poland's Adoption of the Euro*, Warsaw: National Bank of Poland, March 2004, pp. 88-90.

<sup>35</sup> Rzeczpospolita Polska, *Program konwergencji (przyjęty przez Radę Ministrów w dniu 30.04.2004 r.)*, Warsaw, April 2004; Zbigniew Polański, "Makroekonomiczne uwarunkowania akcesji Polski do Unii Europejskiej."

<sup>36</sup> *Założenia polityki pieniężnej na rok 2005*, p. 10.

<sup>37</sup> *Założenia polityki pieniężnej na rok 2005*, p. 11.

<sup>38</sup> NBP Act, Article 24(1), (2); [www.nbp.pl](http://www.nbp.pl) : O NBP > Polityka pieniężna.

<sup>39</sup> NBP Act, Article 13.

<sup>40</sup> Interviews in Poland, 29 September-4 October 2005.

<sup>41</sup> NBP Act, Article 12.

<sup>42</sup> “Wciąż daleko od OK,” p. 3.

<sup>43</sup> “Opinion of the European Central Bank of 4 November 2004 at the Request of the Hungarian Ministry of Finance on a draft law amending the law on Magyar Nemzeti Bank” (CON/2004/35), [www.ecb.int/ecb/legal/pdf/en\\_con\\_2004\\_35\\_f\\_sign.pdf](http://www.ecb.int/ecb/legal/pdf/en_con_2004_35_f_sign.pdf)

<sup>44</sup> Amending Act of December 2003, Article 1(8)a.

<sup>45</sup> [www.nbp.pl](http://www.nbp.pl)

<sup>46</sup> [www.nbp.pl](http://www.nbp.pl) > Polityka pieniężna > Harmonogram posiedzeń RPP w 2005 r.

<sup>47</sup> Tatiana Fic, Marcin Kolasa, Adam Kot, Karol Murawski, Michał Rubaszek, and Magdalena Tarnicka, “Model gospodarki polskiej ECMOD,” *Materiały i Studia*, Paper No. 194, Warsaw: National Bank of Poland, June 2005; [www.nbp.pl/publikacje/materiały\\_i\\_studia/Ms194.pdf](http://www.nbp.pl/publikacje/materiały_i_studia/Ms194.pdf)

<sup>48</sup> Interviews in Poland, 29 September–4 October 2005.

<sup>49</sup> Ewa Wróbel and Małgorzata Pawłowska, “Monetary transmission in Poland: some evidence on interest rate and credit channels,” *Materiały i Studia*, Paper No. 24, Warsaw: National Bank of Poland, October 2002; Tomasz Łyziak, “Monetary transmission mechanism in Poland: The strength and delays,” *Materiały i Studia*, Paper No. 26, Warsaw: National Bank of Poland, December 2002; Jan Przystupa, “The exchange rate in the monetary transmission mechanism,” Bureau of Macroeconomic Research, National Bank of Poland; Michał Rubaszek, “Modelowanie optymalnego poziomu realnego efektywnego kursu złotego: Zastosowanie koncepcji fundamentalnego kursu równowagi,” *Materiały i Studia*, Paper No. 175, Warsaw: National Bank of Poland, June 2004; Bohdan Kłos, Ryszard Kokoszczyński, Tomasz Łyziak, Jan Przystupa, and Ewa Wróbel, “Modele strukturalne w prognozowaniu inflacji w Narodowym Banku Polskim,” *Materiały i Studia*, Paper No. 180, Warsaw: National Bank of Poland, October 2004.

<sup>50</sup> “Wciąż daleko od OK,” p. 5.

<sup>51</sup> “Wciąż daleko od OK,” p. 4; Interviews in Poland, 29 September–4 October 2005.

<sup>52</sup> Interviews in Poland, 29 September–4 October 2005.

<sup>53</sup> NBP Act, Article 23.

<sup>54</sup> NBP Act, Article 25.

<sup>55</sup> *Biuletyn Informacyjny (Information Bulletin)*, 7/2003, Warsaw, October 2003. Available at: [www.nbp.pl](http://www.nbp.pl)

<sup>56</sup> “Poland: Report on the Observance of Standards and Codes—Data Module; Response by the Authorities; and Detailed Assessments Using the Data Quality Assessment Framework,” *IMF Country Report No. 03/311*, Washington, D.C.: International Monetary Fund, October 2003, pp. 15–17.

<sup>57</sup> NBP Act, Articles 3(2)7; 23(1)1, (2)2.

<sup>58</sup> “Poland: Report on the Observance of Standards and Codes—Data Module; Response by the Authorities; and Detailed Assessments Using the Data Quality Assessment Framework,” October 2003, pp. 9–10, 14.

<sup>59</sup> <http://dsbb.imf.org/Applications/web/sddscountrycategorylist/?strcode=POL>

<sup>60</sup> *Raport Roczny (Annual Report)* 2002, [www.nbp.pl](http://www.nbp.pl)

<sup>61</sup> *Założenia polityki pieniężnej na rok 2005*, p. 11.

<sup>62</sup> [www.nbp.pl/kontakt/index.html](http://www.nbp.pl/kontakt/index.html); [www.nbp.pl/Euro/index.html](http://www.nbp.pl/Euro/index.html)

<sup>63</sup> [www.nbportal.pl](http://www.nbportal.pl)

<sup>64</sup> Interviews in Poland, 29 September–4 October 2005.

<sup>65</sup> NBP Act, Article 23.

<sup>66</sup> Amending Act of December 2003, Article 1(10).

<sup>67</sup> NBP Act, Article 61(1), (3).

<sup>68</sup> NBP Act, Article 69(1); Amending Act of December 2003, Article 1(69)1; Interviews in Poland, 29 September–4 October 2005; *Raport Roczny 2004*, [www.nbp.pl/Publikacje/raport\\_roczny/raport\\_2004.pdf](http://www.nbp.pl/Publikacje/raport_roczny/raport_2004.pdf)

<sup>69</sup> NBP Act, Article 8; Information provided by the Internal Audit Department of the National Bank.

<sup>70</sup> Interviews in Poland, 29 September–4 October 2005.

<sup>71</sup> Constitution of the Republic of Poland, Article 203(1).

<sup>72</sup> Interviews in Poland, 29 September–4 October 2005.

<sup>73</sup> “Republic of Poland: Staff Report for the Article IV Consultation,” International Monetary Fund, March 2000; [www.imf.org/external/pubs/ft/scr/2000/cr0045.pdf](http://www.imf.org/external/pubs/ft/scr/2000/cr0045.pdf)

<sup>74</sup> NBP Act, Article 55.